Understanding Buyer Supplier Conflict

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Every organizational entity, whether operated for profit or not, must purchase goods and/or contract for services to meet the needs of its customers, clients, and stakeholders. As a result of the dynamics that occur in this process, the potential for buyer-supplier conflict is extremely high and is in fact a very common occurrence. Proper identification, assessment, and management of buyer-supplier conflict can lower the cost of conflict and improve the efficiency and effectiveness of an alliance.

The costs associated with buyer-supplier conflict include lost productivity, strained relationships, poor resource utilization, and unfulfilled potential of the joint activities undertaken by the buyer and supplier in support of the relationship. The model of buyer-supplier conflict presented herein consists of seven distinct types of conflict: issue-specific, relational, task, process, structural, systemic, and environmental. The source, duration, ease of resolution, and impact on the alliance characterize each conflict type. Identifying and understanding a particular type of conflict is a prerequisite to resolving or managing it. Because each conflict type is different it must be addressed in a manner best suited to its resolution.

From Arms Length Transactions to Alliance Relationships

Arms length transactions are characterized by a minimal amount of interaction between the buyer and supplier. These transactions are generally rights based agreements, which are strictly governed by a document setting forth the rights of all the parties. Occasionally, one party has more power than the other and is in a position to dictate the terms of the agreement. The buyer and supplier both have a short-term perspective of the transaction. Both parties are primarily interested in meeting business obligations at the lowest possible cost and with the least amount of interference from the other party. In this type of transaction, only essential information is shared between the parties. The limited amount of communication that does exist between the parties is often used to determine if the other party is in compliance with the purchase order contractual obligations.

Trust is generally low in arms length transactions and there is little interest or incentive by the supplier to invest in specific assets that could serve the needs of both parties. There is little interdependence between the buyer and supplier except that which results from any power imbalance. Competition among suppliers is seen as the best way to achieve lower prices, which is also the primary aim of buyers in these transactions. Frequent multiple bidding by buyers is the norm in the quest for the lowest price.

Conflict resolution in arms length transactions is a combination of rights and power based strategies. The rights stem from the purchase agreement itself, which clearly states the responsibilities and obligations of each party. If there is a breach of the agreement, the other party seeks compliance by coercion, which often takes the form of threats related to future business and adjudication of disputes. There is little incentive in rights based agreements for
Collaboration. If one supplier fails to perform, another will usually be waiting for the opportunity of additional business.

In alliance relationships there is more information sharing and communication. The parties are not as independent as before as each sees the other as important and necessary if it is to meet its own strategic and competitive goals. A longer-term perspective replaces the short-term outlook and power becomes less of a factor in dictating the terms of the agreement. All of these factors serve to build the trust and confidence necessary for the development of a cooperative buyer-supplier alliance.

Alliance relationships are characterized by open communication, information sharing, and joint risk taking. Buyers and suppliers are dependent on one another to meet individual and collective goals. Dependence is the result of having made an investment in the working relationship. The buyer and supplier are moving toward a longer-term perspective of their relationship and a strategic perspective regarding the goods being exchanged. Both parties understand that identifying, assessing, and managing conflicts are long-term interests shared by each party. Success is a product of information sharing, shared expectations, and trust. The key to resolving conflict in an alliance is collaboration. According to Patterson (1999) a collaborative orientation within an alliance is representative of the party’s common interests and joint goals and objectives.

The ability to properly manage conflict in an alliance will greatly increase the likelihood of its future success and the contribution to its stakeholders. Therefore, mechanisms must be developed and implemented to identify, assess, and manage conflict within the alliance.

**Conflict Potential**

According to Gaski (1984) conflict potential is a condition where one party’s goals and objectives concerning performance are not being met or are not expected to be met in the near future (p.11). Intergroup conflict typically arises when one party hinders the progress of another, Miles (1980, p.122). These definitions of conflict are generally applicable whether they occur as part of an alliance, within a group, organization, or an interpersonal relationship. According to Follett (1941, p. 30) conflict is simply – difference. Building on this definition, conflict can be labeled, as differences in values, beliefs, goals, objectives, and interpretations that can affect the ability of individuals, groups, and organizations to work together.

**Levels of Organizational Conflict**

The typical buyer-supplier relationship has elements of interpersonal, intergroup, intragroup, intraorganizational, and interorganizational conflict.

Interpersonal conflict refers to conflict that exists between two or more individuals who may be on the same or different hierarchical levels of the organization. Sources of interpersonal conflict include personality, power bases, organizational culture, and the role the individual occupies during a conflict episode. Intragroup group conflict exists between members of a department or group or between subgroups that comprise a larger group and can result from structural, relational, goal, task, or process related conflict.
Intergroup conflict refers to conflict between two or more groups within an organization. Intergroup interdependence between the subsystems or subgroups is the major factor contributing to conflict between the two entities. Interorganizational conflict exists between organizational entities. This conflict exists between two or more organizational entities such as business organizations, government and their various agencies, and unions. These interfaces are often critical to the firm’s survival.

**Model of Buyer Supplier Conflict**

The model of buyer-supplier conflict presented herein consists of seven distinct types of conflict. These are issue-specific, relational, task, process, structural, systemic, and environmental. The typology in this model is based partly on the writer’s personal experience, the work of Karen Jehn (1997) and Marie Dugan (1996).

Buyer-supplier conflict has five general characteristics. The first pertains to the conflict’s origin. Each particular type of conflict originates from a different source. The source of each conflict generally remains constant. It is relatively straightforward to ascertain the source of the conflict within certain parameters. With this knowledge, the conflict is more readily diagnosed, assessed and resolved or managed. If the likely source of a particular conflict is known and constant, a conflict resolution system can be used as both a prevention and resolution tool. Advanced knowledge of potential conflict sources provides the alliance implementation team with an opportunity to identify potential problem areas and create awareness among the stakeholders.

The second attribute of buyer-supplier conflict is duration. It is believed that each conflict type will have a different duration from its inception to resolution or management. In the buyer-supplier conflict model, it is important to note that not all conflict is resolved in the sense that it will no longer exist. Environmental conflict is never resolved. The alliance must learn to manage this type of conflict until its associated risks can be mitigated. The goal is to minimize the negative effects of the conflict until it can be addressed by the conflict management system. As the complexity of a conflict increases it is expected to have increasingly longer conflict durations. Resolution or management of the conflict is expected to increase in difficulty as the duration increases.

Interrelatedness is the third major attribute of buyer-supplier conflict. It is believed that any one type of conflict in the buyer-supplier model can be interrelated with any other conflict regardless of the complexity of the conflict.

Buyer-supplier conflict can also be characterized by the impact it has on the alliance. Not all conflict affects the alliance in the same manner. Issue specific has very little effect on the alliance while systemic and environmental conflict can have major impacts. This effect is measured by the degree of disruption to the alliance’s operational ability in the short run and its survival in the long run.

Ease of resolution is the fifth characteristic of buyer-supplier conflict. Less complex conflict is easier to resolve. As would be expected, issue specific conflict is less complex and therefore the easiest type of conflict to develop. Environmental conflict is the most difficult to resolve because its causes are outside influence of the alliance. Several variables such as the party’s
relationship, the intensity of the conflict and the number of parties also affect the ease of resolution.

The degree of alignment attained between the buyer and supplier during the alliance implementation will affect the amount and severity of any conflict that results. A high level of alignment and continued involved by each party will yield more positive benefits. It would be expected that alliances between organizations in emerging industries experience more conflict because of the uncertainty of the environment.

**Conclusion**

The interdependencies that occur between Buyers and Suppliers today invariably lead to conflict. How that conflict is managed often determines the future success of the relationship. Understanding the nature of conflict and its effects within the supply management process is a critical skill set in today’s supply management environment.

Conflict must be understood as an opportunity to improve relationships with the supply community and our internal customers. Moreover it provides the impetus for an examination of policies, procedures and work processes throughout the supply chain.

We must develop organizations and supply chains that are conflict friendly in that they recognize conflict, its affects and how it can be managed. The goal is to understand conflict and its basis in order to better resolve and manage it to the benefit of the entire supply chain.

**Reference List**


